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(b) Determination of the labor equalization factor to calculate Statewide standard costs per case shall be as follows:

1. An equalization factor shall be calculated for the non-physician direct patient care costs of each hospital (excluding ambulatory care centers) to account for differing hospital pay scales in the calculation of standards. Each hospital's equalization factor is determined as non-physician direct patient care costs (prior to allocation of costs from patient care general services) at average pay scales for all New Jersey hospitals (excluding those hospitals classified as Rehabilitation Facilities) divided by Labor Market Area non-physician direct patient care costs.
2. The Labor Market areas recognized in 1990 rate setting as listed below will be used for rate setting in subsequent years.

3. Labor Market Areas are:

Counties or Municipalities

- |      |                          |                             |
|------|--------------------------|-----------------------------|
| i.   | Paterson-Clifton-Passaic | Passaic                     |
| ii.  | Hackensack               | Bergen                      |
| iii. | Newtown - Phillipsburg   | Sussex, Warren              |
| iv.  | Trenton - Flemington     | Mercer, Hunterdon           |
| v.   | Newark, Suburban         | Union, Essex, Somerset      |
|      |                          | Morris, except cities of    |
|      |                          | Elizabeth, Belleville, East |

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Orange, Irvington  
and Newark

vi. Jersey City Hudson

vii. New Brunswick-Perth Amboy Middlesex

viii. Long Branch-Toms River Monmouth, Ocean

ix. Atlantic City-Cape May Atlantic, Cape May

x. Vineland-Millville Burlington, Gloucester  
Camden-Salem Cumberland

xi. Newark, Central City Newark, Elizabeth,  
(not included in v.above) Belleville, East Orange,  
Orange, and Irvington

4. This factor is multiplied by the hospital's actual cost per case for all DRGs.

5. Labor costs shall be adjusted to Statewide averages by first grouping all non-physician direct patient care labor costs (after fringe benefit costs have been distributed) into eight labor categories as follows:

i. Registered Nursing: Includes non-physician salaries reported in RNS, CCA, DEL, DIA and ORR cost centers.

ii. Licensed Practical Nursing: Includes non-physician salaries reported in LPN cost center.

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- iii. Attendants: Includes non-physician reported in ATT and CSS cost centers
  - iv. Clerical: Includes non-physician salaries reported in CLR cost center.
  - v. Health Technical: Includes non-physician salaries reported in BBK, EDG, LAB, RAD, NMD, and THR cost centers.
  - vi. Therapists/Technical: Includes non-physician salaries reported in OPM, PHM, PHT, and RSP cost centers.
  - vii. General Services: Includes non-physician salaries reported in DTY, HKP, PLT, and L&L cost centers.
  - viii. Administrative and Clerical: Includes non-physician salaries reported in the MRD, A&G, FIS, EDR, and PCC cost centers.
6. The portion of the routine cost centers that shall be attributed to each of the four types of nursing skill levels is based on the distribution of costs as reported to the Division.
7. By dividing non-physician direct patient care costs by the non-physician hours in each category, the average hourly rates for the eight labor categories are computed for each hospital. The sum of all of the hospital's non-physician direct patient care

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costs for the eight labor categories divided by the total non-physician hours is equal to the statewide average. To determine each hospital's labor equalization factor, the statewide average cost per hour for each labor category is multiplied by the hospital's number of non-physician labor hours for that category and is added to all other non-physician costs (i.e., supplies, other costs). This amount is divided by the result of the same calculation using the Labor Market Area cost per hour, rather than statewide average, resulting in the hospital's equalization factor.

Whenever the number of hospitals in a given labor market area decreases to a number less than four, the Division shall calculate and compare the mean equalization factors of the Labor Market Area, both before and after the decrease. If they differ by plus or minus one percent or more, that Labor Market Area shall be merged with the geographically contiguous Labor Market Area having the most similar hourly wage rate, averaged for all salaried employees and based on the most recent data available. The factors of all Labor Market Areas shall be recalculated and effective the following rate year.

(c) Calculation of standards shall be as follows:

1. The calculation of standards shall be based on all hospital UB records for Medicaid patients, where Medicaid is the primary payor. The cost per case of each hospital's Medicaid

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